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## LANDED PROPERTY AS AN ECONOMIC CONCEPT AND AS A FIELD FOR RESEARCH—DISCUSSION

FRANK A. FETTER.—With the larger purpose of Professor Ely's valuable paper, I am in entire agreement. I would reserve judgment on a few of the minor statements, and I would express dissent on only one perhaps not very important point. The title appears to be somewhat of a misnomer. Landed property is not an economic concept, but a juristic one. The various classes of land mentioned in the paper are partly physical, partly technological, partly juristic, and only in small part economic. Of course the geological, topographical, and chemical qualities of soil, all have economic bearings, but primarily such classifications are not economic. It would, of course, be possible to correct or adjust this terminology without affecting the main purposes of the leading paper.

The two main aspects of the paper are the theoretical concept of land and the social policy of land tenure. The latter is perhaps more interesting but I will leave that to be discussed by the agricultural economists who are to follow me, and shall limit my discussion to the theoretical aspect of the question.

The largest theoretical proposition presented, the great truth, is that land as an economic category is not simple or unified. It never has been, is not now, and cannot be, a truly scientific concept. Science only in its cruder stages has to do with the classification of concrete objects. As the truly scientific stage is reached, the concern of the thinker is with the qualities and aspects of things, rather than with the concrete objects themselves.

Consider the different things that are called land. The concept land includes nearly all of our material environment. What common character have a tract of desert sand, an Iowa farm, a forest, an iron mine, a coal mine, a mountain side, attractive for residence because of the beautiful scenery, a waterfall, or a shore line suitable for docks and terminal facilities for railways? For what possible purpose could these different kinds of material things be grouped together into one logical economic category and contrasted with the economic agents? Ricardo from the first failed in his attempt to do so; his doctrine was limited to the use of soil for agriculture. He did not know what to do with the other kinds of land under his rent law. He took Adam Smith to task for using the expression "the rent of mines"; then he used that phrase as the heading of his own next chapter. He said

never a word about urban sites. We must recall that at that time the reason for the rent of land was assured to be the peculiar chemical qualities of the soil used for the production of food. The modern conception of a general principle of proportionality in the use of economic agents seems not to have been glimpsed. Professor Ely's discussion ably shows that there is no final resting point in the analysis of the land concept until we come to the concept of the separable uses of material things.

But it may be said that the distinction between land and capital by the older economists was not made with respect to the *purposes* for which agents of production were used, but with respect to their *origin*, their naturalness, or artificiality. Observe that the older grouping of concrete goods into land and capital was not a continuity classification of goods which have more or less of artificiality. Land and capital were sharply defined and contrasted. Those goods which were called natural were treated (or were supposed to be treated) under the land and rent concept, and those that were artificial were treated under the capital concept. The material of everything in the world was once "natural." When did it become "artificial"? At what moment did the bit of iron ore, the piece of coal, the piece of wood, the piece of "land," miraculously become capital? Was it at the first touch of man's hand? Then is every cultivated bit of land artificial, and by that token is capital? This difficulty was recognized by J. S. Mill and troubled him greatly. But at this point the answer is given that the iron ore becomes capital when it is removed from the land while the land surface remains. Here the reason assigned for distinguishing capital from land is changed from artificiality to transportability. We have not time to discuss this further as a theoretical question. It has been already sufficiently threshed out,<sup>1</sup> and there can be no doubt as to the verdict to be rendered.

No wonder then, that many economists have lost their faith in the old Ricardian theory of rent and the land concept. This accounts in large measure for the great dissatisfaction among many teachers with the status of economic theory. The Ricardian theory of distribution having broken down, the economists of the older school are left without any unifying philosophy of economics such as is given by a general theory of distribution.

The theoretical aspect and the social-policy aspect of the land ques-

<sup>1</sup> See the discussion on "The Relations between Rent and Interest," still significant, though now appearing in some respects undeveloped, at the New Orleans meeting, 1903, *Publications*, Third Series, Vol. V.

tion are closely connected in thought. At whichever end we begin to study land we find ourselves necessarily approaching, after a time, the other aspect. Professor Ely was primarily interested in the social reform aspects of the land question. He has done a service in pointing out that the crudity and lack of logic of the old land concept is one of the great obstacles in the way of a better understanding of the practical problems involved in legislation in respect to the subject of property in land.

E. DANA DURAND.—We are indebted to Professor Ely for emphasizing the great importance of the problems connected with landed property and for setting forth the complexity of those problems. He is quite right in maintaining that land comprises a great variety of types. His classification is highly suggestive and for practical purposes seems reasonably "sufficient," to use his phrase. Professor Ely has also performed a service in analyzing the field of research connected with land and landed property. It is to be hoped that economists will undertake far more exhaustive researches along the lines suggested than they have hitherto attempted.

It seems to me, however, that the leading economic characteristics of the principal classes of land are already pretty well understood. We are already in a position to see that our present public policy is unsatisfactory and to formulate at least roughly the outlines of a more desirable policy.

I shall confine my discussion to agricultural land, although I believe that much that is true of such land is true also of urban land, mineral land, water powers, and various other classes of land.

However man may have modified or improved agricultural land, it is still true that there is in much of it an important element which is a natural gift. The total area of land at all adapted to agriculture is limited. It varies greatly in its productive efficiency. If all land capable of agricultural use had to be used to support the population, it would all command a usance value or rent, independent of any human labor or capital embodied in it. As it is, the superior grades of land do command such a rent. This rent is not created by the owner. In some cases he may perhaps be said to have earned all or part of it; in other cases part or all is certainly unearned, though it may, as far as it could be forecast, have been paid for by an "innocent purchaser."

It is doubtless true that land is not the only source of unearned income. This suggests only that we should seek to apply just public policy to other sources of such income as well as to that from land.

Even if it should be impossible to treat all unearned income alike, justice does not require that we should leave one kind alone merely because we may be unable to reach another kind.

There is a fundamental difference between the effect of the growth of population upon the income from land and its effect upon the income from most forms of capital goods—other forms of capital goods, if you prefer. As population increases, the owner at least of a superior tract of land normally finds the income increasing. As the population increases, the owner of a machine or building, even though superior, does not normally find the income from it increasing. The growth of population normally compels us to use constantly lower grades of agricultural land. It does not normally compel us to use inferior machines. The owner of a manufacturing plant ordinarily finds himself constantly threatened with the competition of new accumulations of capital embodied and directed even more efficiently. His income is likely to decline unless he is able to improve his own plant. This is not true of the owner of farm land.

It is of course true that it is often impossible to distinguish that part of the value of land which is due to human labor and capital from that which is inherent. It is the fashion of some to maintain that the whole or practically the whole value of agricultural land is attributed to labor and capital embodied in it. This is a question of fact, and any real knowledge of the facts forces us to the opposite conclusion with respect to great areas of agricultural lands in the United States. No doubt much land of an inferior character or in the newer agricultural regions could not be sold for more than it can be said to have cost to develop it. But to hold the same of millions upon millions of acres in the better agricultural regions at the present time is absurd.

The conditions have changed radically in the past twenty years. So rapid has been the change that most people have failed to grasp its magnitude or its significance. Barely a generation ago much good land was still to be had free in this country. With the rapid growth of our population, which has doubled since 1880, the good lands have filled up. The margin of cultivation has been forced down. We are using semi-arid lands, swamp lands, lands with inferior soil. The marginal cost of production has risen. Prices of agricultural products have advanced by leaps and bounds. The result has been that our better lands, particularly in view of the anticipation of still further rise in income, have taken on a differential value with amazing rapidity.

The United States Department of Agriculture estimates that the average price per acre of all the farm land in the country increased from about \$15 in 1900 to about \$45 in 1915. In state after state, land values have doubled, trebled, or quadrupled. The value of farm land has increased at least \$25,000,000,000 since 1900. While part of this increase is attributed to increased area, part to improvements incorporated in the soil, and part to the general advance in the level of prices, a large fraction of it is attributed solely to the increased scarcity of good land. A quarter section in Illinois or Iowa, which half or three-quarters of a century ago was obtained free from the government, is now worth \$20,000, \$30,000, even \$60,000.

We are told that if there is sometimes an unearned increment of land, there is also sometimes an undeserved decrement. The sad experience of poor New England is harped upon. No one will deny that during the nineteenth century the opening up of vast new agricultural areas and the improvement of methods of production greatly reduced the prices of farm products and reduced the value of much land. But it is beside the point to speak of the losses of landowners half a century ago as offsetting the gains of other landowners at the present time. The point is that we have come to a complete change. I do not think it is correct to say that we are merely on an upward wave and that after the crest will soon come a trough again. So far as one can forecast, the new tendency will continue so long as for all practical purposes to be considered permanent. The growth of population will doubtless continue. Nowhere in the world are there any considerable areas of land now unused which compare with the bulk of the lands in the humid regions of the United States in adaptability to agriculture. There is little hope of revolutionary discoveries in methods of production. No one, of course, can forecast the future with certainty, but we have no right to trust merely to possibilities in the face of probabilities.

But, we are told, the landowner has earned the increment in land value. It is true that in a new country the settler often purchases farm products at less than cost because of the anticipated increment, and thereby shares the increment in advance with consumers. But again it is beside the point to credit the landowner of today with an increment because some one else earned an increment long ago. The settler expected to get only a moderate reward for his pioneer hardships; he was not looking forward to land worth \$200 or \$300 or \$400 an acre. He earned some increment; in many cases, he got all that he earned; he did not earn all that shall accrue forever.

We have already reached in large parts of this country a condition where unrestricted private property in land is leading us away from the very advantages claimed for it. Freehold in land by the actual tillers of the soil is a good thing, though it does not follow that even the tiller is entitled to an indefinite amount of increment in land value. But tenancy and farming by hired labor are rapidly increasing. The more land values rise and the greater the rent obtainable, the less the owner finds it necessary to work himself. In the richest agricultural counties of Illinois over 70 per cent of the land is farmed by tenants, and hired men do much of the labor on the other lands. In large sections of the Middle West 50 per cent or more of land is farmed by tenants. As the price of land increases, the tenant and the farm laborer find it more and more difficult to become owners. We are building up a new class of non-toiling income receivers. It is still true that a large proportion of the tenant farmers are sons or sons-in-law of owners, but the number of other tenants is steadily increasing. These latter tenants are too often birds of passage who farm inefficiently and rob the soil. This is the more true because many landlords are unwilling to give leases on account of the desire to be free to sell, taking advantage of the increase in land prices.

Ownership of farm lands in the United States is still widely distributed and our attitude toward private property in land may properly be somewhat different from what it would be if ownership were concentrated. Still it is no great comfort to the yet more numerous members of the landless class that the benefit of the steadily enhancing prices of farm products goes to a large number of persons. Moreover, except for the breaking up of great ranches of inferior land in the West, the statistics show no increase in the absolute number of landowners as population increases, so that landowners are becoming a steadily smaller proportion of the population. Besides, as the magnitude of the unearned income of farm land comes to be more generally appreciated by the wealthy, there is danger that they will increasingly buy up land until we have a large measure of concentration in ownership.

It seems to me clear that, especially where land values have already become high, the state should seek gradually to appropriate any further increase for the benefit of the general public, by taxation or otherwise. There are practical difficulties in the way of such a policy but they are too often exaggerated. Time will not permit any technical discussion of the subject. I do not favor confiscation of land values. The "innocent purchaser" must not be mulcted. It may not be possible

to introduce a rational system of land taxation without in some measure injuring present owners, but the injury need be, at most, slight. The anticipated increase of income from farm land in the distant future is valued in the present at a relatively low rate and the increase itself is probably underestimated. The state can look farther ahead than the investor. It can so gradually increase the burden of taxation on lands which command a true rent that the change will scarcely be felt. It seems to me further that the government will be justified in discriminating more or less between those who themselves till the soil and those who hold unused lands for rise in value or who rent land to others.

B. H. HIBBARD.—It is well known that land transfers were by no means free and untrammelled during a large part of the world's history. In fact it was not till after freedom of transactions in chattels had long been the order of the day in Europe that comparative freedom in land sales became prevalent. The restrictions of feudalism died hard, and the supposed freedom which followed was after all genuine freedom to those only who had an economic advantage.

In almost every European country great land holdings, with the necessary tenant adjunct, developed. In few instances, conspicuous among which is France, was anything done to check the growth of these great estates until late in the nineteenth century, or later. In England it was even supposed that an equilibrium had been reached whereby agriculture was prosperous, and the people concerned in it reasonably satisfied, under a landlord-tenant system. The same system in Ireland, however, developed a situation entirely untenable. In most of the other European countries social welfare called for social action, and one after another they have taken up the problem of guiding the process of fitting the land to the people and the people to the land. Emigration or discontent at home made action imperative.

About thirty years ago Germany undertook to develop a land-settlement policy. The first incentive was to mix a leaven of Germans among the Poles, but within a short time the plan assumed a broader gauge. Especially during the past ten years much has been done to break up large holdings in any part of Germany and to put peasant proprietors in charge of moderate sized farms on long-time credit.

Denmark was a country of many big estates and in consequence a great proportion of her farmers were tenants. The movement which on the one hand developed among Danish farmers some of the best coöperative marketing organizations in the world required on the



other hand a closer connection with the soil and the neighborhood than could be had by a tenant. Out of this situation grew a system of land purchase by the government and sale to farmers. The big estates were thus subdivided and sold out on long time to farmers, with the result that over 90 per cent of the farms of Denmark are now cultivated by owners. This is almost an exact reversal of the former percentages respectively of owners and tenants.

In Russia the government buys big estates, gets them ready for peasant farms, and sells them on long time at a low rate of interest, requiring a cash payment of but 10 per cent of the selling value.

The case of Ireland is perhaps best known. Tenancy has very largely disappeared from the island. During the past fifteen years over half of the agricultural land has been taken out of the hands of landlords and put into the hands of peasant proprietors. Ireland seems destined to become almost exclusively a land of small land-owning farmers. Yet under the *laissez-faire* policy the land remained in the hands of a few while the many were in misery. In England the efforts which have been made do not seem to have met with great success so far as the establishment of small holdings is concerned. Yet the last word has not been said, since plans are being made to put a land-colonization plan for both England and Scotland into effect at the close of the present war.

Similar governmental interference with the private ownership of land is taking place in Italy and Austria, and in the various colonies of European countries in Africa. A dissimilar movement is in vogue in France, where a rigid system of dividing up land in inheritances has resulted in making farms too small. To correct this the legal means of settlement without undue division has been provided.

It may be said that the above instances of governmental guidance in land settlement are the result of old systems which have left an unfortunate legacy of concentration of ownership. If that be true, how about the newer countries like New Zealand, Australia, and the United States? The situation in New Zealand is usually characterized as one of land monopoly. Land was held out of higher use for long periods by wealthy men who held it for pasturage, or speculation, or more likely both. At the same time much government land remained unoccupied because of the initial cost of bringing it into use. The government too met both dilemmas. In the case of the government land a system of loans has been devised whereby the farmer receives 60 per cent of the value of the land purchased in the form of a loan. In the case of the big holdings that seem to stand in the way of pro-

gress the solution takes the form of government purchase and resale. The different Australian states have similar but even more elaborate systems for undoing the mistakes of the early land policies and establishing small farmers on land of their own.

Thus a positive policy in place of *laissez faire* is seen to have been introduced into the land system of countries both old and new. How about our own country? Until some thirty years ago land was so cheap and so abundant that the ownership of great tracts brought little satisfaction. The men wishing to own land could pass by the speculators who in some instances had bought a quarter or a third of a million acres from the government and could themselves buy of the government or of some small holder at a moderate price. Indeed since 1862 land has been offered to settlers free, and until the last very few decades this was a fundamental fact in our land question. But within the lifetime of men yet living the episode of free land has passed, as for example in Iowa, where not over thirty-five years ago in some sections land was too abundant to bring a rental of any amount, yet today cannot be bought under \$185 per acre. It is not strange that much land of this character is in the hands of tenants. In the heart of the corn belt are many counties in which tenants outnumber owners. Moreover, the proportion of tenants in this section is on the increase. In the past these tenants have been able in most cases sooner or later to gain the ownership of a farm. Whether or not they will be able to do so in these choicest parts of our agricultural districts is a serious question. That tenancy is a bad condition, one that should be combatted, has not yet been proved. That it should dominate is contrary to all belief. Some conscious effort will undoubtedly be required to prevent the further development of the landlord-tenancy trend. Possibly improved credit facilities may suffice.

Another unfortunate feature of our land situation is that of such districts as the cut-over forest lands of Michigan, Wisconsin, and Minnesota. Land of this character is held by lumber companies or land companies which have bought of it. Speculation has played a major rôle in the transactions up to date. The price is already so high that a poor man must, if he buy at all, go heavily into debt. The cost of clearing is frequently as much as the purchase price, let alone the cost of other improvements. Along with these facts is the important consideration that it is hard to make the land yield much until money and labor have been expended upon it in considerable quantities. Thus the settlement is slow. Clearing is done at the rate of two or three acres per farm per year, and the better part of a man's lifetime has

passed before the raw land has become in reality a farm. There are of course exceptions to the rule. Some settlements are flourishing; but alone and unaided the settler stands a poor show of making rapid progress.

The case seems unmistakable that this wild land under present conditions is not sold on a genuine competitive basis. On the contrary the usual way is to show the prospective buyer what the most successful former purchaser has accomplished and hold that up as a criterion of value. This method of sale is not peculiar to land alone. No, but the bargainers for wild land are not on an equal footing to such an extent as are buyers of horses or cows or dry goods. The purchaser usually comes in from a distance; is not well acquainted with such land; does not see competing salesmen; and does not appreciate the difficulties involved. Time will not permit the full development of this idea, but briefly it is a contention that the generally accepted view that a given buyer is required to overbid the man whose potential buying power is just less than his own is here reversed. In this case the buyer seems to be required to bid a figure substantially equal to the price which the most efficient buyer is able to pay. If this be true it accounts for the fact that so few buyers of such land have left a producer's surplus, but on the contrary very often a deficit which they are obliged to make up by earnings from outside employment. The necessity for state action in adjusting land to people is already recognized in several states. The *laissez-faire* policy is not meeting with universal approval and is called upon to justify itself.

ROY G. BLAKEY.—My friend and colleague, Professor Durand, made two points which, it seems to me, are inconsistent with each other, but which illustrate a very popular misconception about unearned increment in agricultural land values. In the first place, Professor Durand says that the present price of land is not based upon present returns, but is higher than justified by those returns and is due in large part to the increased value which this land will have in the future. When most people talk about the price of land being much too high because farmers can't make more than 1 or 2 per cent upon the capital invested, they forget that this high price is justified by the future increment. With this point made by Professor Durand, I agree.

In the second place, Professor Durand deplures the increasing cost of land which makes it more and more difficult for tenants and others with small means to become owners of land and says that he favors more or less heavy taxes on the increments in land values. He would

not make the taxes heavy enough to confiscate any of the values of present owners, but only high enough to take all or part of the increases above present values, in other words, the unearned increments.

My first criticism is of the misconception involved in the idea that these future increments can be taxed away, wholly or in part, without affecting more or less seriously the values of present owners, if this taxing scheme is made general. This idea is inconsistent with the first point mentioned above, namely, that present values are due, not merely to present income, but also to future incomes, or what is the same thing, to future values.

Land that is worth \$200 an acre today may be worth \$500 in twenty years, even if no additional improvements are put upon it, but merely because population increases and increases the demand for food products. Many would say that the \$300 increase is an unearned increment which society ought to tax away, and they would say further that the present owner's value would not be lowered if the \$300 were so taken because he would still have a value of \$200. But as a matter of fact, in the average case, so far as future contingencies can be calculated, this \$300 would not be an *unearned*, but an *earned* increment, if interest is earned; and I think Professor Durand would not deny interest to investors in land any more than he would deny it to investors in stocks or bonds or other forms of capital.

Suppose A owns a share of stock in one bank which makes and distributes in dividends \$6 annually and that B owns a share in a bank equally well managed but which distributes only \$2 annually and puts the other 4 per cent to surplus each year. At the beginning, each of these shares will sell for the same, say \$100, because each yields 6 per cent. Suppose these banks continue their respective policies and continue making the same rates upon their capitals. A draws and consumes his dividend each year and at the end of any time one may mention, say fifteen or twenty years, his stock is still worth \$100. But B's stock at that time is worth more than \$100, say \$200. Would any one call the increment of \$100 in B's stock an unearned increment? I think not.

A farmer takes up or buys land, he gets along with 2 per cent on his investment, he trusts to Providence that his sixteen hours of labor a day, plus eighteen hours for his women folk, plus the deficit of 4 per cent to make a normal return, will be made up in the future by an increase in the value of his products, or what is the same thing, by an increase in the value of his land. If, in the course of fifteen or twenty years, land which he bought for \$100 an acre becomes worth \$200,

even though he put no improvements on it or in it, is it correct to say that the \$100 increment in this case is unearned any more than was the \$100 increment in the case of the bank stock? Or, to speak more accurately, the only reason he could afford to pay \$100 for the land at the time he did was because this land, in his estimation, would be worth \$200 by the end of a certain period. Any tax that would take away all or part of this future increment would lessen the present value, for the present value is the present worth, or the sum of all future incomes discounted to the present time. Anything that lessens future incomes thereby lessens present values.

But some one will ask, What about free land for which a man made no capital investment? My personal observation and experience has been that free land is often the most expensive that one can acquire. Most urban economists have a wrong conception of marginal land and the margin of cultivation. They seem to think that land is taken up and put under cultivation when the farmer can make wages and interest out of current crops. The truth is that most new land is taken up before it pays wages and interest, because the pioneer expects the losses sustained during the first few years to be compensated for by future increments in land values.

When these increments are realized, usually after many more years of struggle and privation than most people appreciate and even more than the homesteader himself had anticipated, then society is apt to call the increments unearned. But are they unearned? By no means. They *were* toiled for and waited for long before they were received. In truth, these so-called future unearned increments subsidize the present generation by furnishing it with more and cheaper wheat and other commodities than it would have except for the fact that the pioneer was induced to increase the country's economic land sooner than he would have done except for the increment. The greater the increment, and the sooner it will be realized, the earlier is the land taken up.

In all cases, so far as men are economic men and do not miscalculate, land is taken up at such a time that it will yield no unearned increment or exceptional returns. If it were going to yield exceptional returns, it would be taken up earlier. Of course, it is true that some land has had large increments in value because of miscalculations, but it is probably true that as much or more land has brought decrements as has brought increments, if interest is to be counted, as it certainly should be. Most of us forget this matter of interest. We see present high values and compare them with past low values and jump to the conclusion that they are unearned. We say that they are due to

society. So are all other economic values due to society. But you say, not in anything like the same sense or degree as are land values. If land investments are so favored by society, why is it that so many prefer to invest in stocks, bonds, factories, railroads, and other forms of capital that do not receive the so-called unearned increment to anything like the same degree that land does? To ask the question is to answer it; it is because the so-called unearned increment in land, on the average, so far as can be calculated in advance, is earned just as much as any other value is earned. To tax it away does confiscate present values and discriminates against those who happen to hold their accumulations in the form of land. This is not saying that it would be, or would not be, bad public policy to tax increments in land values. We are not passing upon that question here. But owners of land are no less productive than owners of some stocks, bonds, and many other forms of capital.

Many seem to have the idea that if agricultural land were taxed more heavily, tenants and others could get it more easily than at present. But this is manifestly untrue except as the situation would be influenced by the insignificant amount of such land that is now held out of cultivation by speculators. Taxation means a transfer of rent from private owners to the government. Rent plus taxes would be the same in any case; it would be the total product imputable to the land in question. If the government owned all of the land, the tenants would have to pay for the differential advantages of each piece, just as they do under private ownership. Of course, the rent would be going to the government, the public, instead of to private owners. But this would be no advantage to the public unless it confiscated this land from present owners. Possibly it should be confiscated. Possibly a good many other forms of private wealth should be confiscated also. Once we begin this policy of confiscation it is hard to say where it will lead us, possibly to socialism. The land problem is only a part, although a very important part, of a much larger problem. In arriving at practical solutions, perhaps more attention will have to be paid to the perpetuation of wealth through inheritance than to its accumulation through so-called unearned increments in agricultural land values.

R. R. BOWKER of New York referred to Professor Ely's paper as of large value as a mind-opener, and spoke of the ups and downs of certain lands in Stockbridge, Massachusetts, where the land values are largely for views. He emphasized the desirability of studying decre-

ments in land values, as illustrated in New York by the Twenty-third Street decadence, East Side tenement properties, and the dead district in Brooklyn between the old Fulton Ferry approaches and the approaches of the Brooklyn Bridge.

JOHN A. RYAN.—The great majority of us agree, I presume, that the subject of land has not received sufficient attention in the courses in economics. Professor Ely's paper shows how vast is the field, and how many topics await investigation and discussion. One of the most interesting of these is the question whether unearned income is as common or as important in other kinds of investment as in land. I have never been able to see that it amounts to very much outside of land investments. We need an investigation of the facts to settle this question. As regards Professor Durand's advocacy of a tax on the future increases of land values, I am quite sympathetic, although I recognize that the ordinary effect of such a tax would be to cause the value of land to decline. However, if the tax were light at first, and were increased very gradually, its depressing effect on values might be entirely neutralized by the tendency to increasing values, due to the continuously increasing scarcity of land. Hence no injustice need be done to present owners. The important thing is that land should not rise further in value in this country.

RICHARD T. ELY.—In closing this discussion I must confine myself to a few points. I should be glad if I could speak at length about the unearned increment in land values. This forms part of a larger whole, namely, unearned increments in general and their relation to earned increments. The economic surplus found in the rent of land is only one kind of surplus. It does exist and is found in the rent of land, but it is not so large as it at first may appear to be. We are apt to concentrate our attention on great cities like New York and to forget the many places where there have been large unearned decrements. Moreover, we must consider the services of landowners, particularly in this country, where they contribute through special assessment, taxes, and otherwise to values. I wish someone among you (multimillionaires!) would give me an endowment to enable me to conduct an investigation into the facts of the case. I should like, for example, to investigate the history of real estate in Madison, Wisconsin. It is not a large city, but it is one that is interesting and instructive from this point of view. I believe we could get all the essential facts bearing upon the situation from the beginning when the capital of Wisconsin was located at

Madison to the present time. I believe we could get the history of the real estate companies which have operated in this city.

Let me bring before you one concrete case to illustrate the general situation. I was talking some time ago with a gentleman who owned a business in Madison. I knew that he had had an opportunity to buy two lots in a growing part of the city, where values had increased, but had let the opportunity go. I said to him, "You made a mistake, did you not?" He replied, "No, I do not think so. I had an opportunity to buy stock in a bank, and I think I have made just as much and had far less trouble." We began figuring on the investment he made and the investment he might have made, and I concluded he was right. The lots were bought by, let us say (as is probably the case), the one who did not have the opportunity to buy the bank stock. He had far more trouble with his property and had a smaller return. Was his increment in value unearned, while the increment of the owner of the bank stock was earned? It was the owner of the bank stock who had the special privilege and not the owner of the real estate. Should the owner of the real estate pay a special tax from which the owner of the bank stock should be exempted? If so, why; if not, why not?

It has been proposed that the tax on land, and especially the tax on urban land, should gradually be increased, and a large part of the rent, or all the rent, be absorbed during a thirty-year period. This subject should be carefully investigated before it is endorsed. Would it not be slow strangulation of business, resulting in great depression? I believe it has been nearly forty years since we have had a bank failure in the city of Madison, and for years at a time there has not been a failure of a state bank in Wisconsin. I have been inclined to attribute this in part to rising land values, which have made it easy to get credit and place credit upon a firm basis. The situation would have been very different if the basis of credit, as found in land values, had been gradually dwindling.

A question for investigation also is this: If we should take land out of the field of investment, should we not remove valuable opportunities from the ordinary man and woman? If only the more mobile kinds of property were open for investment, professional people like teachers, preachers, and physicians would be at a disadvantage. Might not the result be such a concentration of wealth as the world has never seen? I would not speak dogmatically on this point, but I think that we have here a topic which is well deserving of investigation.